ability to set the terms and price of interconnection. As Internet scholar Dr. Joseph Bailey notes, "Interconnection of networks that exchange Internet Protocol traffic is the glue that holds together the Internet as a network of networks."[67]

Today, no one network dominates the Internet backbone. Thus, backbone network providers share a common incentive to negotiate interconnection and peering agreements that are mutually beneficial. However, should one backbone provider gain dominant market share (as will be the case if WorldCom and MCI were to merge), the dominant provider would be able to set the rules and price for interconnection.

Dr. Joseph Bailey notes that if any one backbone network becomes dominant, it will have an economic incentive to refuse interconnection to competing networks as a strategy to move competitors' customers onto its own network.

> ...As the Internet matures into an infrastructure with dominant market players, older interconnection agreements may no longer be consistent with a competitive business strategy...(C)ompany A, may choose not to interconnect with another service provider, company B, in order to entice customers to switch from company B to A by offering the benefits of content that is unique to A's network. This is not very different from the pattern of development and behavior of the telegraph and telephone networks in the United States in the 19th century.[68]

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[67] Joseph Bailey, "The Economics of Internet Interconnection Agreements," in Lee W. McKnight and Joseph Baily, *Internet Economics,* Cambridge: MIT Press, 1997, p. 156.

[68] Bailey, pp. 159-160.

Already, Internet interconnection peering and interconnection policies have changed significantly from 1994 when networks exchanged traffic through free peering policies. Today, the large backbone providers "have become more discriminating in their choice of peers," refusing to peer with backbones that are not of equivalent size.[69] In this environment, one dominant market player, either through unilateral or concerted action, would be able to increase the price of Internet connectivity for customers of other backbone providers by raising the price of interconnection those networks must pay to connect with the dominant network.

Dr. Bailey states that should one firm gain such power over Internet interconnection, "regulation requiring companies to interconnect might then be necessary...If interconnection points became the basis for unfair competition in the Internet industry, common carrier status might help promote more equitable interconnection agreements."[70]

Because regulation of the Internet is not likely in the foreseeable future, the Commission must ensure, through its rejection of the Applicant's merger request, that no one entity gains dominant control of the Internet backbone market.

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[69] Cawley, p. 355.

[70] *Id.*, p. 160.

2. The Merged Entity Would Also Exercise Control over Internet Interconnection through Its Bottleneck Control of the Largest Network Exchange Points

The merged entity would own five Internet Network Access Points (NAPs), including the two busiest, MAE-East and MAE-West. These bottleneck points will give the merged WorldCom/MCI further leverage over other Internet backbone providers.[71]

Today, the public Internet exchange points are experiencing serious traffic congestion. NAP owners are not upgrading capacity fast enough to accommodate the growing traffic that is being exchanged across networks.[72] The Tier One backbone providers have responded to the problem of congestion at the public exchange points by establishing private bilateral points where they exchange traffic between their networks.[73]

This trend toward traffic exchange at private interconnection points reduces the incentive for WorldCom to upgrade capacity at MAE-East, MAE-West, and the other the public exchange points that it owns. To the contrary, WorldCom, through unilateral or concerted action, will have a market incentive to allow congestion to continue at the public exchange points that it owns. Customers that receive their Internet connectivity from backbones that exchange traffic at the

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[71] Keefe, P. 22-23.

[72] MacKie-Mason and Varian, p. 40 and *The Cook Report on the Internet*, p. 2.

[73] "As the competition model edges out the cooperative one, bilateral interconnection arrangements at new private interconnection points are becoming more common than multilateral interconnection arrangements at public points." Cawley, p. 345.

public exchange points will increasingly experience lost packets and degraded service quality, and will find they must connect through one of the dominant carriers.[74]

Some Internet scholars argue that usage-based or two-tier pricing models will relieve the congestion problems. But in his study of Internet pricing models, Dr. Mitrabarun Sarkar underscores the problem of bottleneck control in the hands of the dominant backbone providers, even under a usage-based pricing scheme. He notes that "a potential pitfall of the prevalent models of usage-sensitive pricing is that they are vulnerable to abuse by firms that have market power emanating from control of the systemic bottleneck facilities. These firms could create artificially high network loads to inflate user prices, and thereby their revenues."[75]

Dr. Sarkar concludes that "regulatory oversight to prevent anti-competitive actions by firms that control bottleneck facilities, to ensure consumer welfare, and to provide nondiscriminatory access to emerging service providers" would be necessary.[76] As we remarked earlier, such regulatory oversight does not seem likely in the near future. Thus the Commission must ensure that no one entity gains such dominant control over the Internet backbone in concert with control over the most heavily-trafficked public exchange points.

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[74] Keefe, p. 23.

[75] Mitrabarun Sarkar, "Internet Pricing: A Regulatory Imperative," in McKnight and Bailey, p. 480.

[76] *Id.*, p. 408.

3. There are Many Barriers to Switching Backbone Carriers

There are numerous barriers to switching backbone providers in the event of anti-competitive behavior. Other commentators have pointed out that there is no IP address portability. Many smaller and newer ISPs receive their IP addresses from their backbone provider. If an ISP decides to switch backbone providers, it would have to re-number IP addresses for all dedicated access customers, a time-consuming and costly process. Furthermore, as the Consumer Project of Technology pointed out in its comments, there are numerous other operational and technical entry barriers.[77] Finally, the "commercial culture of secrecy"[78] that pervades the Internet creates an environment in which nondiscriminatory pricing and access can flourish. WorldCom already requires firms with which it negotiates to sign non-disclosure agreements prior to the onset of negotiations.

In sum, the merged entity would become the dominant Internet backbone provider, controlling more than 63 percent of the market. In combination with its ownership of the most heavily-trafficked public exchange points, the dominant firm would have the ability through unilateral or concerted action to set the price and terms of interconnection to the Internet. Thus, the merger is anti-competitive and not in the public interest.

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[77] Reply Comments of Consumer Project on Technology, *In the Matter of Applications of WorldCom, Inc. and MCI Communications Corporation for Transfer of Control of MCI Communications to WorldCom, Inc.*, CC Docket No. 97-211, Jan. 26, 1998, pp. 2-3.

[78] Keefe, p. 4.

IV. The Proposed Merger Will Reduce Employment Growth in the Telecommunications Industry by Over 75,000 Jobs by the Year 2002.

In CWA Comments, we used a conservative methodology to estimate the employment impact of the merged entity's planned reduction in capital and operating expenses in the year 2002. We calculated that the reduced network build-out in the local and long distance markets, combined with the reduction in customer service in the local exchange market, translates into the loss of 75,000 telecommunications jobs that would have been created by the year 2002, absent the merger.[79]

In addition, the merger will result in thousands of lay-offs of current workers. Within weeks of the merger announcement, MCI announced 1,500 lay-offs.[80] MCI also announced it would take pretax charges of $200 million for restructuring and job cuts.[81] Since then, MCI has announced that it will shut down the customer-service unit in suburban Denver, Co., resulting in the loss of 200 jobs. This customer service center had been established to field calls for MCI's local residential phone business.[82] Thus, as noted above, the merger-related retreat from the local telephone market is already beginning to cause job loss at MCI.

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[79] CWA Comments, pp. 31-33.

[80] CWA Reply Comments, p. 16.

[81] *Id.*, p.16.

[82] "MCI Shuts Customer-Service Unit: Action in Glendale Linked to Tough Competitionk," *Denver Post*, March 4, 1998.

V. Conclusion

The joint Applicants fail to meet the burden of proof that the merger is in the public interest. Contrary to the claims of the Applicants, the merger will not "enhance competition" in the local exchange, but instead will reduce by one the number of facilities-based competitors and will reduce a potential aggressive competitor for residential and small business customers in the local loop. Furthermore, the merger will create an entity with more then 63 percent control of the Internet backbone. The merged entity would be able to use its dominant market power in the Internet market, either through unilateral or concerted action to raise prices and set the terms of interconneciton. Finally, the merger will result in significant employment loss in the telecommunications industry.

Because the joint Applicants fail to prove the public interest benefits of the merger, the Commission should deny their request.

Respectfully Submitted,

Communications Workers of America

By ____________________
George Kohl
Senior Executive Director, Research and Development

March 20, 1998

Appendix A

Affidavit of David Shapiro

March 20, 1998

Affidavit of David Shapiro

1. Name and Qualifications

1. I am a Principal of both Keilin & Co. LLC, and KPS Special Situations Fund, L.P. As a Principal of Keilin & Co. LLC, a New York based investment bank that represents organized labor in corporate transactions, I have been involved in a wide variety of acquisition and restructuring transactions including the employee buyouts of Algoma Steel and UAL Corp., the restructurings of Navistar International, Northwest Airlines and the New York Daily News.

2. I and my partners, Eugene Keilin and Michael Psaros, recently raised nearly $200 million in two private equity funds that will invest in troubled middle market companies. The KPS Funds expect that employee participation will be a key component of all of its transactions.

3. I graduated from the University of Michigan with High Honors in History and received an MBA with a Specialization in Finance from the University of Chicago Graduate School of Business.

2. Purpose and Overview

4. The Communications Workers of America (CWA) asked me to examine and analyze the financial statements of WorldCom, MCI and their closest competitors in the telecommunications industry. I have relied on the following information for my analysis.

5. (A) Income statements and balance sheets of MCI and WorldCom. These financial statements are available in various public filings submitted to the Securities and Exchange Commission (SEC).

6. (B) Income statements and balance sheets of MCI and WorldCom's major competitors in the telecommunications industry. These companies are: AT&T, Bell Atlantic, Bell South, GTE, Frontier, LCI, SBC Communications, and Sprint. These public financial statements are also available in filings submitted to the SEC. Keilin & Co. LLC stores most of this information in a database used to analyze the telecommunications industry. I have used this database to create the accompanying table comparing the financial attributes of WorldCom and MCI to that of its competitors. I refer to this table in my findings.

7. (C) Pro-forma income statement and balance sheet of the merged MCI-WorldCom. This is from the joint proxy statement for the special meeting of shareholders to approve the merger filed on January 22, 1998, with the SEC as Amendment No. 3 to Form S-4.

8. (D) Valuation analyses provided by WorldCom's and MCI's financial advisors, Salomon Smith Barney and Lazard Freres, respectively. These are also from the joint proxy statement.

3. Facts and findings:

9. (A) *The balance sheet of WorldCom is unlike any other telecommunications firm. It is particularly unique due to the large amount of Goodwill & Intangibles it carries as assets.* Generally Goodwill and Intangibles (G&I) is recognized only when a business is acquired at a price in excess of the fair market value of its net assets. That portion of the difference between book value and the purchase price that cannot be attributed to the market value of specific assets is generally categorized as G&I.

10. Prior to the MCI acquisition, WorldCom had the highest level of goodwill of its peer group in both absolute and relative terms. As shown in the accompanying table, WorldCom had $13

billion of G&I on its balance sheet as of September 30, 1997. AT&T, the largest telecom in terms of total assets and revenues, had only $8.3 billion in G&I, followed by SBC which had $3.2 billion; GTE $3.0 billion; MCI $2.4 billion and BellSouth $1.8 billion.

11. Prior to its acquisition of MCI, WorldCom's G&I represented 62.5% of its total assets. By way of comparison, an index of other major telecommunications companies (AT&T, Bell Atlantic, BellSouth, GTE, Frontier, LCI, MCI, SBC, Sprint and WorldCom) reflected an industry average G&I of only 11% of total assets. Among the major companies, including AT&T, SBC, GTE, and MCI, goodwill as a percent of total assets was respectively 14.7%, 7.8%, 7.4%, 9.6%. WorldCom's tangible assets are only slightly more than one-third of its total assets. In contrast, 90.4% of MCI's assets are tangible assets and 85.4% of AT&T's assets are tangible.

12. Similarly, WorldCom's G&I represents a significantly higher percentage of shareholder equity than any other telecommunications firm. Shareholder equity is the net worth of a company after subtracting liabilities from assets and represents the book value of the shareholders investment in the corporation. WorldCom's G&I equals 97.3% of its shareholder equity, while G&I for the rest of the industry, excluding WorldCom and MCI, averaged 22.5% of shareholder equity. For the major firms, G&I as a percent of shareholder equity ranges from a high of 39.1% at GTE to a low of 20.9% for MCI.

13. The high level of G&I will result in a reduction of reported earnings in the future as the goodwill and intangibles are amortized (charged against earnings) over an extended period of time. This expense is not tax deductible.

14. The asset structure of MCI and WorldCom are rather different. In contrast to WorldCom,

MCI's balance sheet reflects relatively little Goodwill and a high level of tangible assets. As of September 30, 1997, MCI's G&I was only 9.6% of total assets and 20.9% of its shareholder equity. MCI's tangible net shareholder equity was 36.2%, third only to BellSouth and Sprint.

15. However, the new consolidated pro forma financial balance sheet of WorldCom and MCI will bear almost no resemblance to the old MCI. Instead, its key balance sheet ratios will be virtually identical to the pre-acquisition WorldCom with even *less* net tangible shareholder equity. The new MCI WorldCom will have $44 billion in G&I representing 61.6% of total assets.[1] G&I will be 99.6% of total shareholder equity. Its tangible assets will represent only 38% of the entity's total assets. The industry average is 93%.

16. In fact, the new MCI WorldCom will carry on its balance sheet a disproportionate share of total industry G&I and virtually none of the industry's tangible net shareholder equity. The new MCI WorldCom would have 72% of the total telecom industry G&I, just 11% of the industry's tangible assets, and only 0.3% of the industry's tangible net shareholder equity.

17. (B) *A new MCI-WorldCom will have a greater debt service load stemming from the all cash payment to British Telecom (BT) for its 20% stake in MCI.* WorldCom will have to undertake an additional borrowing of $7.4 billion to finance a $6.9 billion cash payment to BT, plus other estimated transaction costs of $510 million which includes a $465 million fee paid to BT[2]. The

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[1]On a pro-forma basis prior to incorporating the impact of the Brooks Fiber and CompuServe transactions, which will further increase G&I and marginalize tangible net shareholder equity

[2]Joint Merger Proxy Statement, Amendment No. 3 to Form S-4, SEC, p.93.

resulting incremental annual interest expense stemming from the merger will be $481 million[3]. As a result, there will exist an added financial burden on the new MCI-WorldCom to meet its interest obligations due to restructuring which comes about due to the acquisition. This incremental debt burden will restrict its free cash flow that it may have otherwise spent on building telecommunications infrastructure. Furthermore, the company's ability to finance expansion will be more closely linked to its lending rate. Each percentage point increase in WorldCom's lending rate will translate into an additional $74 million in annual interest expense.

18. MCI-WorldCom will be under intense pressure to achieve either revenue increases or cost savings that exceed the expense that will be recognized for both G&I and interest expense.

19. (C) *WorldCom has acquired several companies in all stock transactions.* Before WorldCom acquired MFS Communications on December 1996, it had 420 million shares outstanding. Currently WorldCom has 930 million shares outstanding. If the MCI acquisition is consummated, WorldCom will have nearly doubled the number of shares outstanding to 1.8 billion. Thus in less than two years, WorldCom will have printed some 1.3 billion shares of new stock for its acquisitions with the expectation that WorldCom will generate superior future earnings growth. WorldCom reported a net loss of $5.50 per share in 1996. For the nine months ended September 30, 1997, WorldCom reported $0.25 earnings per share.

20. (D) *WorldCom's P/E ratio is far above other telecoms.* The stock market has supported WorldCom's high P/E ratio based on expectations of future earnings growth. WorldCom's P/E

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[3]Based on WorldCom's estimated incremental borrowing rate of 6.5%.

ratio is 96, second to LCI which has a P/E ratio of 117.[4] In contrast, AT&T has a P/E ratio of 21 and GTE has 18. Sprint's P/E ratio is 31. MCI's P/E ratio is 47. The higher the P/E ratio, the greater the expectations investors have in the future earnings generating capacity of the company. A high P/E ratio can only be sustained if WorldCom management succeeds in meeting investor expectations of earnings growth well above the telecommunications industry average.

4. Conclusion

21. Based on my analysis and facts presented above, in my opinion, a merger between MCI and WorldCom will create an entity that will be under extreme pressure to deliver on promised market share growth, cost reductions and other synergies in order to bolster earnings and offset the amortization of a very substantial amount of goodwill and intangibles and incremental interest expense from transaction-related borrowings. Such pressure may cause the new MCI-WorldCom to focus on high margin, high growth segments of the industry at the expense of lower margin, lower growth segments.

I hereby swear, under penalty of perjury, that the foregoing is true and correct, to the best of my knowledge.

David Shapiro

[4]As of March 9, 1998.

THE MERGED MCI-WORLDCOM WILL BE UNLIKE ANY OTHER MAJOR TELECOM COMPANY BECAUSE...

...ITS BALANCE SHEET WILL BE DOMINATED BY "GOODWILL AND INTANGIBLES"
...ITS TANGIBLE ASSETS WILL ONLY BE SLIGHTLY MORE THAN ONE-THIRD OF ITS TOTAL ASSETS
...IT WILL HAVE VIRTUALLY NO TANGIBLE NET SHAREHOLDER EQUITY

Major Telecom Companies (As of 9/30/97)	Goodwill & Intangibles ($millions) (As of 9/30/97)	Total Assets ($millions)	Tangible Assets ($millions)	Shareholder Equity ($millions)	Tangible Net Sh Equity ($millions)	G&I Pct of Total Assets	Tangible Assets Pct of Total Assets	G&I Pct of Shareholder Equity	Tang Net Sh Equity Pct of Total Assets
AT&T	$8,341	$56,711	$48,370	$21,985	$13,644	14.7%	85.3%	37.9%	24.1%
Bell Atlantic (Including NYNEX)*	$0	$52,891	$52,891	$12,549	$12,549	0.0%	100.0%	0.0%	23.7%
BellSouth	$1,800	$34,765	$32,965	$14,815	$13,015	5.2%	94.8%	12.1%	37.4%
GTE	$3,020	$41,041	$38,021	$7,720	$4,700	7.4%	92.6%	39.1%	11.5%
Frontier	$517	$2,340	$1,823	$1,022	$505	22.1%	77.9%	50.6%	21.6%
LCI	$348	$1,213	$865	$510	$162	28.7%	71.3%	68.2%	13.4%
MCI	$2,366	$24,717	$22,351	$11,321	$8,955	9.6%	90.4%	20.9%	36.2%
SBC	$3,289	$42,056	$38,767	$9,536	$6,247	7.8%	92.2%	34.5%	14.9%
Sprint*	$0	$17,622	$17,622	$8,915	$8,915	0.0%	100.0%	0.0%	50.6%
WorldCom	$13,003	$20,813	$7,810	$13,366	$363	62.5%	37.5%	97.3%	1.7%
Total - Major Telecom with "Old" MCI and WorldCom	$32,684	$294,169	$261,485	$101,739	$69,055	11.1%	88.9%	32.1%	23.5%
Major Telecom Excluding MCI and WorldCom	$17,315	$248,639	$231,324	$77,052	$59,737	7.0%	93.0%	22.5%	24.0%
New MCI-WorldCom Pro Forma	**$43,989**	**$71,451**	**$27,462**	**$44,177**	**$188**	**61.6%**	**38.4%**	**99.6%**	**0.3%**
Major Telecom Totals with New MCI-WorldCom Pro Forma	$61,304	$320,090	$258,786	$121,229	$59,925	19.2%	80.8%	50.6%	18.7%

	Goodwill & Intangibles	Total Assets	Tangible Assets	Shareholder Equity	Tangible Net Sh Equity
New MCI-WorldCom Share of Major Telecom Totals:	71.8%	22.3%	10.6%	36.4%	0.3%

Attachments

Cities with WorldCom and MCI Facilities
$5 billion in "Efficiencies" = Loss of One Competitor

<u>California</u>

- San Francisco
- Los Angeles
- San Diego

<u>New York</u>

- New York City

<u>Florida</u>

- Orlando
- Tampa
- Miami

<u>Ohio</u>

- Cleveland

<u>Minnesota</u>

- Minneapolis

<u>Colorado</u>

- Denver

<u>Pennsylvania</u>

- Philadelphia
- Pittsburgh

<u>Massachusetts</u>

- Boston

<u>New Jersey</u>

- Newark

<u>Michigan</u>

- Detroit

<u>Illinois</u>

- Chicago

<u>Washington</u>

- Seattle

<u>Arizona</u>

- Phoenix

<u>Oregon</u>

- Portland

<u>Georgia</u>

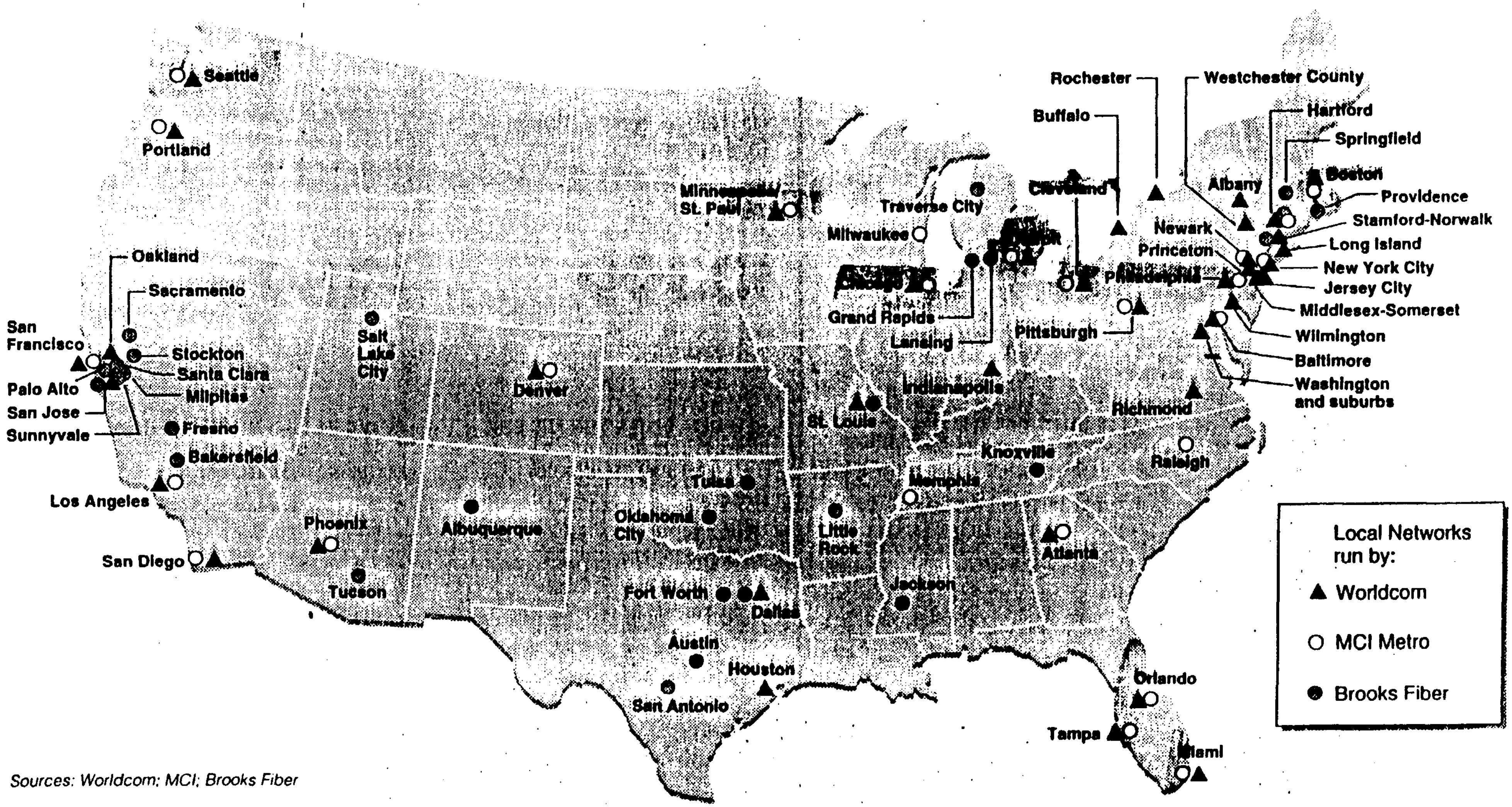
- Atlanta

<u>Maryland</u>

- Baltimore

<u>Connecticut</u>

- Hartford



Sources: Worldcom; MCI; Brooks Fiber

The New York Times

Merrill Lynch *In-depth Report*

United States
Telecommunications/Services - Long Distance

4 February 1998

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WorldCom Inc.

Ind. Consolidation+Core Growth+Synergies = Compelling GARP Stock

ACCUMULATE*

Reason for Report: Resuming Coverage

Long Term BUY

Price: **$35 3/4**
12 Month Price Objective: $45

Estimates (Dec)	1996A	1997E	1998E
EPS:	$1.02	$0.38	$0.85
P/E:	35.0x	94.1x	42.1x
EPS Change (YoY):		-62.7%	123.7%
Consensus EPS: (First Call: 16-Jan-98)		$0.39	$0.87
Q4 EPS (Dec):	NA	$0.14	
Cash Flow/Share:	$1.36	$2.12	$1.92
Price/Cash Flow:	25.3x	16.9x	18.6x
Dividend Rate:	Nil	Nil	Nil
Dividend Yield:	Nil	Nil	Nil

Opinion & Financial Data

Investment Opinion:	D-2-1-9
Mkt. Value / Shares Outstanding (bn):	$35.8 / 1000
Book Value/Share (Dec-96):	$13.70
Price/Book Ratio:	2.6x
ROE 1997E Average:	NA
LT Liability % of Capital:	25.5%
Est. 5 Year EPS Growth:	37.0%

Stock Data

52-Week Range:	$39 7/8-$21 1/4
Symbol / Exchange:	WCOM / OTC
Options:	Pacific
Institutional Ownership-Spectrum:	54.6%
Brokers Covering (First Call):	23

ML Industry Weightings & Ratings**

Strategy; Weighting Rel. to Mkt.:		
Income:	Overweight	(07-Mar-95)
Growth:	Overweight	(07-Mar-95)
Income & Growth:	Overweight	(07-Mar-95)
Capital Appreciation:	In Line	(25-Jul-95)
Market Analysis; Technical Rating:	Above Average	(24-Nov-97)

*Intermediate term opinion last changed on 01-Oct-97.
**The views expressed are those of the macro department and do not necessarily coincide with those of the Fundamental analyst.
For full investment opinion definitions, see footnotes.

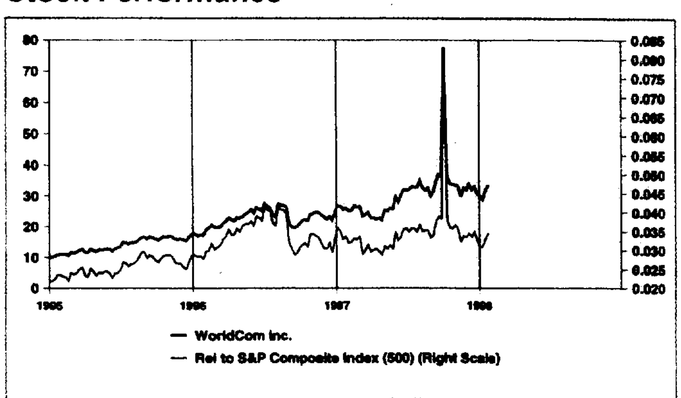
Investment Highlights:

- **Resuming coverage of WCOM with an int. term Accumulate & LT Buy ratings (D-2-1-9).**
- **Stock selling at what we view as attractive multiples of '99E: 17.9x reported EPS, 12.9x pre-goodwill EPS, and 7.3x EBITDA. Relative to 25% est. 5 yr EPS growth (off '99), WCOM shares represent "growth at a reasonable price" (GARP) with a P/E relative to S&P 500 of 0.9x with 5 yr growth 4.2x that of S&P 500 (6% vs. 25% for WCOM).**
- **WCOM's investment case is strengthened by the MCI merger which adds 25% to pre-merger '99E EPS, due to hard synergies accounting for 1/2 of EPS growth, continuing growth of internet profits, inherent low exposure to RBOC entry & potential cash from asset sales.**
- **12 month price objective of $45 based on a 22.5x target multiple on our '99 EPS est. of $2.**

Fundamental Highlights:

- **Brooks acq. on 1/29 marks end of phase 1 of WCOM's industry consolidation strategy while accelerating local network deployment 1-2 yrs.**
- **Merger with MCI (phase 2) remains on track for 3Q98 close. Hard (cost) synergy estimates of $2.5B in '99 growing to over $5B within 5 yrs. remain unchanged. Soft (revenue) synergies are upside to our estimates.**

Stock Performance



Merrill Lynch & Co.
Global Securities Research & Economics Group
Global Fundamental Equity Research Department
437201/435200/435100/435000

RC#60103703

Resuming Coverage Of WorldCom With A 2-1 Opinion; $45 Price Objective Over The Next 12 Months

8 Key Reasons We See WorldCom As A Key Large Cap Stock Holding

Our recommendation of WorldCom is based on 8 key reasons which we think uniquely positions the stock as a key large cap stock:

- **"Growth At A Reasonable Price"**

#1. "Growth At a Reasonable Price" Attractive Valuation Relative To S&P 500 And Other Long Distance Companies

WorldCom's current valuation stacks up quite attractively on a number of different metrics including P/E (both on a reported basis as well as cash earnings), P/E to growth, EBITDA and EBITDA to growth as detailed in table 6 below. In addition, WorldCom currently trades at a P/E discount to the S&P 500 (based on '99E), a valuation disparity t hat is especially striking when one considers the wide disparity — over four fold — in 5 year forecasted growth rates (6% for the S&P vs. 25% for WorldCom).

- **MCI Merger Will Bring 2 Benefits: Significant Cost Savings & Reduced Intra-Industry Competition:**

#2. Merger With MCI Should Yield 2 Key Benefits — Cost Synergies & Reduced Competition

A) **Potential Cost Savings:** We continue to estimate that $2.5 billion in total cost synergies (see table 1 below) will be realized in the first full year ('99) following the merger with MCI, increasing to over $5 billion annually by 2002. The bulk of these synergies are to be provided via network cost savings, overhead/SG&A savings as well as a significant cut back in the aggressive local market entry plans at MCIMetro which are now be redundant to existing and planned MFS and Brooks CLEC assets and activities. The net impact on '99 earnings is forecasted at a 25% accretion to EPS ($2.00 vs. WorldCom "stand alone" forecast of $1.60).

Table 1: Est. EBITDA Savings - MCI Merger Only

($ in millions)	1999E	2000E	2001E	2002E
Line Cost Savings				
MCI Local	500	725	975	1,200
Domestic LD	600	1,000	1,400	1,800
International	400	700	1,000	1,300
SG&A	1,000	1,100	1,200	1,300
Total EBITDA Synergies	2,500	3,525	4,575	5,600

Source: Merrill Lynch estimates

B) **Reduced Intra-Industry Competition:** Mergers with MCI and Brooks will reduce, on the margin, the level of intra-industry competition in both the US LD and local markets via the reduction in the number of major competitors. In the LD sector, we hope for a slightly more rational approach to residential marketing expenditures and pricing with a new focus on profitability, rather than a single minded pursuit of pure market share.

On the local side, completion of these two mergers would mean that MCI's Metro unit, Brooks and WorldCom's MFS unit would no longer compete with each other. We therefore expect that local pricing will feel slightly less pressure and that significant overlapping expenditures (both capital and marketing) will be eliminated.

- **Wide Investor Appeal:**

#3. Wide Investor Appeal: Attractive P/E Valuation Brings In Traditional Growth Investors

WorldCom's addressable investor base was vastly expanded to once again include traditional growth investors, many of whom were unable to invest in WorldCom due to current P/Es in excess of 40x.

WORLD COM

MCI

January 26, 1998

The Honorable William Kennard
Chairman
Federal Communications Commission
1919 M Street, N.W.
Room 814
Washington, D.C. 20554

Dear Chairman Kennard:

Today, WorldCom and MCI file their joint reply to comments concerning our merger. As those comments and our earlier submissions demonstrate, the MCI WorldCom merger is definitely in the public interest.

On one issue, however, we want to add our personal voices. Some have questioned MCI WorldCom's residential strategy.

MCI WorldCom intends to be the leading local service competitor for both residential and business customers of all sizes across the country. Indeed, local market entry is a driving force behind our merger.

Our investment has -- and will -- follow that intent Each company has already invested billions of dollars to enter local telephone markets. Simple business logic explains why. MCI WorldCom will have an established base of residential and business customers, the marketing and product-development expertise to reach those customers, and the local facilities that will be used most efficiently by carrying residential night and weekend traffic along with business traffic.

But investment will flow and intent can be fulfilled only where real business opportunities exist. Thus far, achieving the goal of local competition has proven extremely painstaking and difficult because of delay, litigation and the obstructionist tactics of incumbents. Early approval of the MCI WorldCom merger -- and careful and vigilant enforcement of the Telecommunications Act -- are vital steps to bringing competitive choice in local phone service to residential and business customers.

Sincerely.

Bernard J. Ebbers President and CEO WorldCom. Inc.	Bert C. Roberts. Jr. Chairman MCI Communications Corporation

cc: Commissioner Susan Ness
Commissioner Harold W. Furchtgott-Roth
Commissioner Michael K. Powell
Commissioner Gloria Tristani

The New York Times

March 11, 1998

2 Corporate Cultures Meet in MCI-Worldcom Merger

By SETH SCHIESEL

Reuters

Bert C. Roberts Jr., left, chairman of MCI, and Bernard J. Ebbers of Worldcom want to create one of the world's most powerful communications companies.

When the directors of the MCI Communications Corporation and of Worldcom Inc. dined together last Tuesday evening, the contrast between the two boards was stark.

"The MCI board is much older, more corporate almost; it has two women and an African-American," said one person who was present where the dinner was held, at MCI's headquarters just down Pennsylvania Avenue from the White House. "It's like you'd think a board would look like.

"The Worldcom board is all entrepreneurial-type guys that came with the acquisitions," the person said. "The difference is almost funny."

The challenge of integrating the cultures of two such different companies — one a brash newcomer to the upper echelons of the telecommunications world, the other a onetime rebel that joined the establishment — is just one of the potential hurdles in the pending MCI-Worldcom merger.

Those hurdles are not likely to block the merger altogether, analysts said yesterday. But they could throw bumps in the path of a deal that would produce one of the world's most powerful communications companies.

That company will begin to take form today, when the companies intend to propose directors of the new company. Executives who spoke on condition of anonymity said that as of last night, the lineup consisted of 17 people: 6 officers from the combined corporation, 8 outsiders appointed by Worldcom and 3 outsiders appointed by MCI.

The proposed board would include at least one person who is not now on the board of either company.

The shareholders of the two companies are scheduled to hold separate votes on the deal after the board announcement. Each will be held far from the hotel in midtown Manhattan where Bernard J. Ebbers, Worldcom's chairman, and Bert C. Roberts Jr., his counterpart at MCI, announced their $37 billion pact in November. Worldcom's stock owners will meet in Jackson, Miss., MCI's in South Sioux City, Neb. But even if both votes are romps in favor of the deal, as expected, the agreement to merge will remain just that — an agreement, not a reality — for at least a few more months.

Regulators in Europe and the United States have deepened their inquiries into the antitrust implications of the deal because both MCI and Worldcom are major carriers of Internet traffic.

The two companies generally contend that the retail and wholesale, or "backbone," Internet markets should be considered a single market for the purposes of antitrust consideration.

In that case, the combined companies would control around 20 percent of the industry. But Jeff Keefe, an associate professor at Rutgers University's management school, said, "If you believe that there is a separate Internet backbone provider market, Worldcom-MCI would control somewhere between 48 and 68 percent

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of that market."

People close to the Justice Department's antitrust division, which is conducting the primary investigation of the deal, said the department was likely to demand that the combined MCI-Worldcom either divest itself of some of its Internet assets or assure the Government that competitors would be granted fair access to the company's systems.

There is no formal timetable for the department to finish its review, but people close to the investigation said it would probably be a few months before the department's antitrust chief, Joel I. Klein, decided what to do.

The length or intensity of a Justice Department investigation is, by itself, little indicator of its eventual outcome. The department subpoenaed crates of documents during its nine-month inquiry into the merger of the Bell Atlantic Corporation and the Nynex Corporation. In the end that deal sailed through without challenge.

In the case of Worldcom and MCI, analysts and people close to the investigation said, the department is likely to try to change relatively minor contours of the combined company rather than attempt to scuttle the deal altogether.

Some analysts believe MCI-Worldcom's greatest asset with regulators is the combined companies' potential ability to take on the regional Bells in local telephone markets.

"The Government thinks that the enemy of my enemy is my friend," said Scott Cleland, a telecommunications policy analyst for the Legg Mason Precursor Group in Washington. "And the Government's real enemy are the Bells. The regulators are more interested in breaking up the local monopoly than in long-distance competition."

In October, John W. Sidgmore, Worldcom's vice chairman, told The Washington Post that after acquiring MCI, Worldcom would look for ways to stop serving MCI's residential customers so it could focus on more profitable business accounts. The next day, Worldcom retracted that statement and said the company was committed to serving residential customers and to competing against the Bells for residential local phone customers.

The Government "bought it, hook, line and sinker," Mr. Cleland said. "This is a classic case of a company's telling Wall Street one thing and Washington something else," he said. "Shareholders think that they won't spend a lot of money on the residential market, and Washington expects them to do just that."

If it were not for MCI's running up unexpectedly large losses in its local operation last year, the company would probably be a part of British Telecommunications P.L.C. by now.

The British carrier pressed MCI to renegotiate the two companies' merger agreement last year after learning of the losses. That opened the door for Worldcom.

Merging with either company would have been a cultural journey for MCI. But Worldcom is a very different sort of partner because it has made its reputation mainly on mergers and cost-cutting rather than on the quality of its telecommunications services, analysts said.

"Worldcom is especially strong at running an acquisitions machine," said Mark R. Bruneau, president of the communications and computing unit at Renaissance Worldwide, a consulting firm in Stamford, Conn. "MCI is especially strong at running a phone company. And those are very different skills."

Monopoly.com

Will the WorldCom-MCI Merger Tangle the Web?

by Jeff Keefe

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